HOUSING MARKET OUTLOOK
Victoria CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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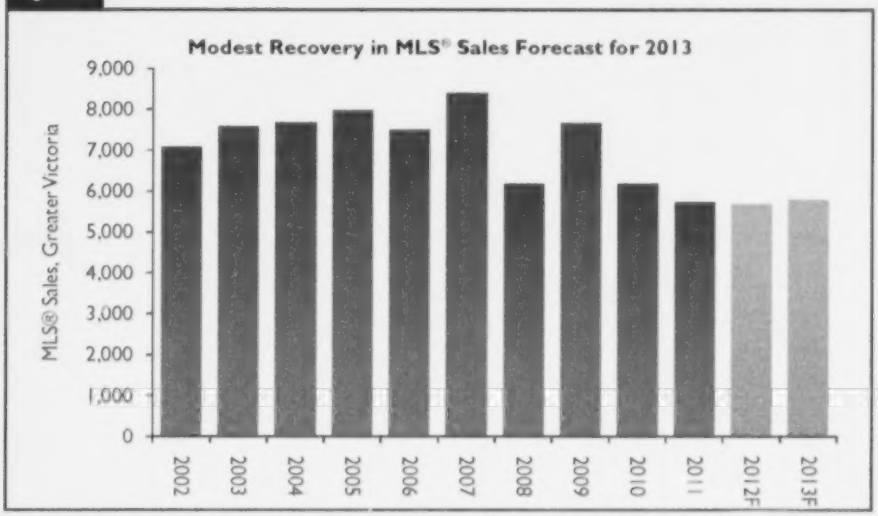
Victoria Highlights[1]

- The resale market is expected to remain in buyers' market conditions in 2013 as both existing home sales and new listings are forecast to rise in tandem.
- Average resale home prices are forecast to be at similar levels in 2012 and 2013.
- Housing starts are expected to edge up in 2012 and 2013, but will be slightly below their ten-year average.
- Improving employment and positive net migration will support a stable housing market.

Figure 1



Source: CMHC, adapted from MLS® data supplied by CREA. MLS® Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

[1] *The forecasts included in this document are based on information available as of October 17, 2012.*

Table of Contents

1 Victoria Highlights
2 Resale Market
2 Variations within the Market
3 Modest Increase in Housing Starts
3 Economic Conditions Expected to Improve in 2013
4 Mortgage Rates to Remain Low
5 Forecast Summary

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Resale Market

Resale market conditions continued to favour buyers in 2012. Through the first three quarters of 2012, total Multiple Listing Service® (MLS®) sales in Greater Victoria[2] were at the same level relative to the first three quarters of 2011, and 22 per cent below the average level of sales recorded over the previous ten years. Homeownership demand was tempered by a slower-than-anticipated recovery in full-time employment.

Resale demand will increase slightly in 2013, benefitting from low mortgage interest rates, improving employment and population growth. In addition, households looking to enter the resale market will be able to select from a wide range of homes (dwelling types and locations) at a number of price points, appealing to a variety of buyers. The level of MLS® transactions will increase modestly to 5,800 in 2013, from 5,700 forecast in 2012 (see Figure 1).[3]

The sales recorded through the first three quarters of 2012 have impacted the supply of existing homes only marginally. Year-to-date new MLS® listings have edged down 3.6 per cent relative to last year, while the number of active listings has increased 2.5 per cent relative to the same period last year.

The sales-to-active listings ratio, a key barometer of resale market conditions, is also a leading indicator of resale house prices. In 2012, the ratio remained in buyers' market conditions as active listings increased and resulted in moderating resale prices. On an annual basis, the average Victoria resale price is forecast to decline 1.7 per cent in 2012 to $490,000, and decline one per cent in 2013 to $485,000.

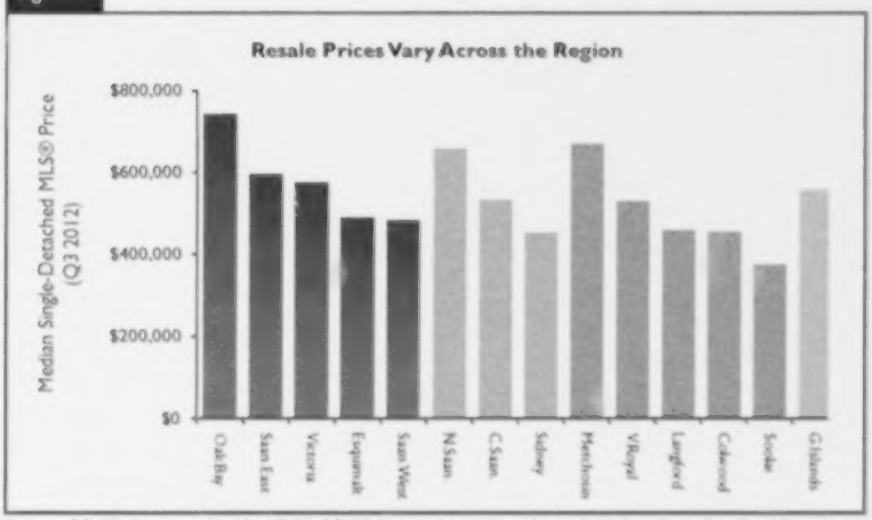
Moderating home prices in 2012 combined with favourable mortgage interest rates has reduced average mortgage payment that is required to purchase the average priced home in Greater Victoria. In inflation-adjusted terms, the monthly payment associated with purchasing an average single-detached home in Victoria declined 11 per cent between the peak price in April 2008 and the September 2012 price.[4]

Variations within the Market

The MLS® statistics discussed above reflect transactions involving all residential dwelling types, and across all sub-regions. While these aggregate statistics are useful, breaking the data down by dwelling type and sub-region sheds some light onto the intra-market variation that exists within the Victoria resale market.

Home buyers will continue to benefit from an ample supply of listings and strong price competition in the market in 2013. The supply of detached homes listed for sale has remained at high levels. While the supply of active apartment condominium listings have come down from a year ago, the decline reflects reduced listing activity rather than an increase in sales. During the first nine months of this year, the average single-detached and apartment home prices were three per cent lower than at the same period last year. Comparatively, attached home prices were seven per cent lower. In addition to the price variation that exists across dwelling types, significant geographic

Figure 2



Source: MLS® data supplied by VREB. MLS® is a registered trademark of the Canadian Real Estate Association.

[2] The Victoria CMA is similar to the Greater Victoria area outlined by VREB, but does not include the Gulf Islands, Malahat, Shawnigan Lake, Mill Bay or Cobble Hill.

[3] The ten year (2002-2011) average number of MLS® sales in Greater Victoria is 7,198.

[4] Calculation uses the average single-detached (no waterfront or acreage) MLS® price (source: VREB), a 20 per cent down payment, the average residential mortgage lending rate, 5 Year (source: Bank of Canada), and a 25-year amortization period.

price differentials are prevalent across the Victoria resale market. For example, the median single-detached home price in North Saanich was 31 per cent higher than recorded in Sidney (see Figure 2).

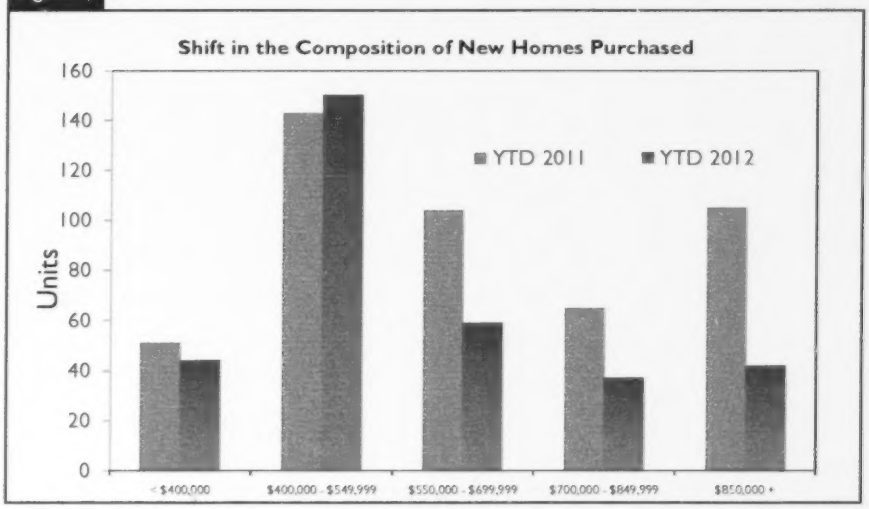
Modest Increase in Housing Starts

The level of Victoria Census Metropolitan Area (CMA) new home construction will approach 1,650 housing starts in 2012, and is forecast to reach 1,800 starts in 2013. Both multiple-family and single-detached housing starts will lag below the 10-year historical average this year and next.

Local builders are forecast to start 1,040 multiple-family units in 2012 and 1,190 units next year, as numerous projects are currently flowing through the construction pipeline (this includes the planning and development approvals stages) across the CMA. So far this year the number of building permits for multiple-family units increased by 15 per cent compared to last year's level. The majority of multiple-family units being built are apartment condominiums, expected to account for between 45 and 50 per cent of total housing starts both this year and next. The mix between housing types (single-detached vs multiple-family) has remained consistent during the past decade.

Footings are expected to be poured for 610 new single-detached homes in 2012 – nearly 30 per cent below the ten-year average for the CMA. Low mortgage rates and an improving labour market are expected to stimulate demand for single-detached homes in 2013. The West Shore will continue to account for the bulk of single-detached housing starts, as very few developable lots are available within the core markets.

Figure 3



Source: CMHC, Absorbed Single-Detached Units by Price Range.

Following the economic downturn that commenced in 2007, there has been a gradual shift in the focus of local homebuilders and developers to housing units in the $400,000 to $550,000 price range (Figure 3). The building community is cognizant of the growing demands of price-sensitive local consumers. While the supply of existing homes remains elevated from a historical perspective, new homes are being absorbed quickly if they cater to modest price points.

Economic Conditions Expected to Improve in 2013

The forecast for stability in the Victoria CMA resale and new construction markets is closely linked to the ongoing economic recovery in the region, province, and country. The local economy, as measured by local economic indicators, shows good prospects to grow at a pace similar to the Province. CMHC expects the British Columbia economy, as measured by real gross domestic product (GDP), to expand at a pace slightly lower than the ten-year average of 2.5 per cent. In 2013, the gradual improvement of economic conditions, both locally and provincially will stimulate housing demand through job creation, income and population growth.

While the Victoria labour market has taken longer to rebound from the economic downturn than the Vancouver CMA and provincial labour markets, there are signs that the recovery is gaining traction. Full-time employment growth has been recorded in Victoria since the fourth quarter of 2011, and total employment (seasonally-adjusted) sits only five per cent below the pre-downturn peak recorded in 2008 (Figure 4).[5] Employment in Victoria is forecast to expand this year and next, returning to the previous peak level by the end of 2013. While the high-

[5] *Latest data point is September 2012, when the seasonally adjusted number of jobs (full-time and part-time) was 183,100 (source: Statistics Canada).*

tech sector will continue to see more activity and drive job creation over the next two years, the effects of the federal shipbuilding contract will be positive over the long-term.

Census results indicate the Victoria CMA population increased by 4.4 per cent between 2006 and 2011, a slower pace than the province as a whole. People coming from other provinces and within British Columbia were key sources of population growth and housing demand. While moderating from levels recorded during the mid 2000s, BC Stats projects population growth and household formation to remain steady through 2025. As more jobs are created, this will drive migration to region. On average, there has been net migration of roughly 3,500 people per year to the Victoria CMA.[6] This trend will continue, as net migration between 4,500 and 5,300 is projected for 2012 and 2013.

Non-residential and residential construction will be a growth driver in 2012 and 2013. Planned non-residential investment across the Victoria CMA includes: expansion to Camosun College, Victoria shipyard improvement, new helicopter facility, Belmont Secondary School replacement, Spencer Interchange and Langford North Connector Road, Vancouver Island Technology Park expansion, Hillside Shopping Centre expansion and the replacement of the Johnson Street bridge.

Figure 4

Source: Statistics Canada

Mortgage Rates to Remain Low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

[6] *Source: Statistics Canada (Prepared by: Population Section, BC STATS, Ministry of Citizens' Services)*

Forecast Summary Victoria CMA Fall 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	7,660	6,169	5,773	5,700	-1.3	5,800	1.8
MLS® New Listings	11,745	13,250	13,427	12,500	-6.9	12,800	2.4
MLS® Average Price ($)	476,137	504,561	498,300	490,000	-1.7	485,000	-1.0
New Home Market							
Starts:							
Single-Detached	647	827	609	610	0.2	710	16.4
Multiples	387	1,291	1,033	1,040	0.7	1,090	4.8
Semi-Detached	186	234	84	160	90.5	170	6.3
Row/Townhouse	62	162	198	140	-29.3	150	7.1
Apartments	139	895	751	850	13.2	830	-2.4
Starts - Total	1,034	2,118	1,642	1,650	0.5	1,800	9.1
Average Price ($):							
Single-Detached	668,875	635,664	667,023	658,000	-1.4	660,000	0.3
Median Price ($):							
Single-Detached	599,900	595,500	610,000	611,000	0.2	615,000	0.7
New Housing Price Index (% chg.)	-7.8	-2.8	-1.6	-1.0	-	0.0	-
Rental Market							
October Vacancy Rate (%)	1.4	1.5	2.1	1.6	-0.5	1.4	-0.2
Two-bedroom Average Rent (October) ($)	1,001	1,024	1,045	1,070	-	1,090	-
One-bedroom Average Rent (October) ($)	790	806	819	835	-	850	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level (persons)	183,100	183,400	182,000	185,600	2.0	188,300	1.5
Employment Growth (%)	-3.9	0.2	-0.8	2.0	-	1.5	-
Unemployment rate (%)	6.5	6.0	6.1	5.4	-	5.2	-
Net Migration	6,133	4,979	3,444	4,800	39.4	5,500	14.6

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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